



Introduction to Exempt Organizations

2003 IRS Nationwide Tax Forum



What is an Exempt Organization?

- An exempt organization is:
 - a trust, association or corporation *not* organized for profit, i.e. *nonprofit*, that is described in the Internal Revenue Code as *exempt* from *Federal Income Tax*.



For-Profit

- Sells shares of stock
- Organized for benefit of owners, i.e., private purpose
- Profits shared with owners

Non-Profit

- Does not issue stock
- Organized for benefit of community, i.e, public purpose
- Profits used to further exempt purpose



Benefits of Being Tax-Exempt

- Exempt from federal income tax and *some* federal employment taxes
- Exemption from *some* state taxes (e.g., income, sales, employment)
- Tax deductible contributions (primarily charitable organizations)
- Tax exempt financing
- Reduced postal rates



Types of Exempt Organizations

Charitable	§501(c)(3)	Schools, churches, foundations, etc.
Civic/Social Welfare	§501(c)(4)	Rotary clubs
Labor/Agricultural	§501(c)(5)	AFL-CIO
Business Leagues/ Professional	§501(c)(6)	Chambers of Commerce, ABA, AICPA, NATP
Social Clubs	§501(c)(7)	Country clubs, swim clubs

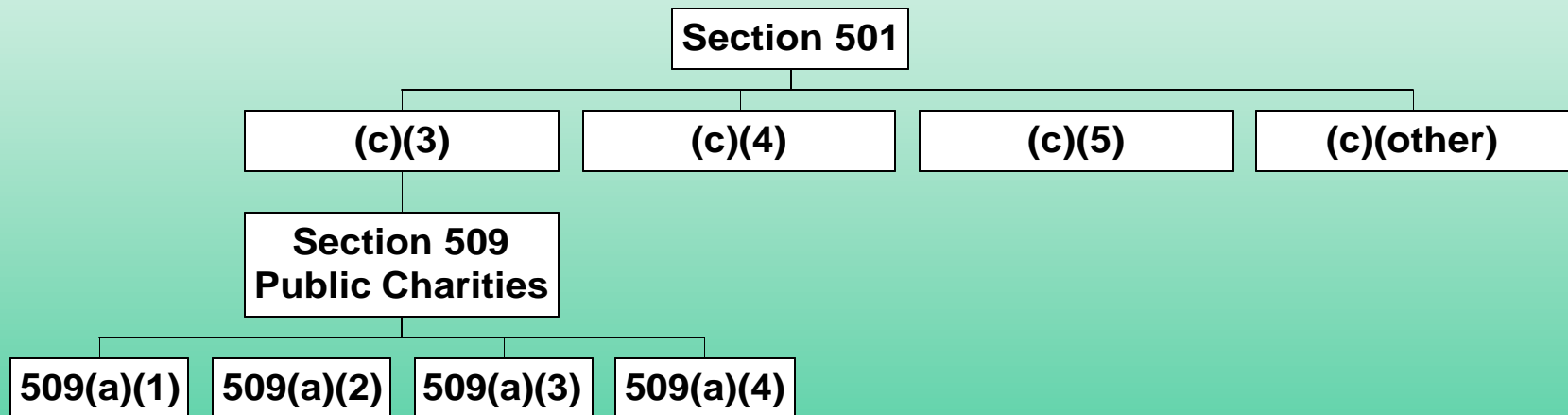


Jeopardizing §501(c)(3) Status

- *Lobbying* activities must be insubstantial.
- *Political* activities are absolutely prohibited.
- *Unrelated business* activities must not be primary purpose.
- *Inurement/private benefit* activities prohibited and restricted.



Public Charity vs Private Foundation





Public Charity

Private Foundation

- Publicly supported (e.g., United Way)
- Contribution deduction: 50% of AGI for individuals
- Not taxed on income
- Community-based board of directors
- Privately supported (e.g., family or corporate foundations)
- Contribution deduction: 30% of AGI for individuals
- Not taxed on income; may be subject to excise taxes
- Family or corporate board of directors



Forms for Tax Exempt Status

- Form 1023 for §501(c)(3) organizations - *required* for all except
 - Churches
 - Certain government entities
 - Organizations with gross receipts < \$5,000
- Form 1024 for most other organizations - not required, but strongly encouraged



Forms for Tax Exempt Status

- Form SS-4
 - To obtain identification number needed for application.
- Form 2848
 - To permit someone other than a principal officer, director or employee to represent the organization.
- Form 8718
 - To remit user fee.
- Form 872-C
 - To provide consent to have public charity status reviewed after 5 years



Annual Filing Requirements

- Form 990-EZ: gross receipts \leq \$25,000 and $<$ \$100,000 and total assets \leq \$250,000
- Form 990: gross receipts $>$ \$100,000 or total assets $>$ \$250,000
- Form 990-PF: private foundation
- Form 990-T
 - unrelated business income tax



Exceptions to Annual Filing Requirements

- Most organizations with gross receipts < \$25,000
- Churches
- Organizations closely related to a government entity (Revenue Procedure 95-48).



Public Disclosure

- Publicly available:
 - Applications (Forms 1023/1024)
 - Annual Information Returns (Forms 990, 990-EZ, and 990-PF)
- NOT publicly available:
 - Identities of donors (except for 990-PF and political organizations)
- Posting on the Internet satisfies requirement



Contact Information

- <http://www.irs.gov/eo>
 - for forms, publications or general information on exempt organizations.
- EO Customer Service (toll-free): 1 (877) 829-5500
 - for general questions or assistance with applications or exempt organizations forms.
- EO E-file: tege-eo-efile@irs.gov



Publications

- 526 - Charitable Contributions
- 557 - Tax-Exempt Status for Your Organization
- 578- Tax Information for Private Foundations and Foundation Managers
- 598 - Tax on Unrelated Business Income of Exempt Organizations
- 1771 - Charitable Contributions: Substantiation and Disclosure Requirements
- 1828 - Tax Guide for Churches and Religious Organizations
- 3079 - Gaming Publication for Exempt Organizations
- 3386 - Tax Guide for Veterans' Organizations
- 3833 - Disaster Relief Organizations